VZCZCXRO8292
RR RUEHDU RUEHJO RUEHMR
DE RUEHLG #0094/01 0320808
ZNR UUUUU ZZH
R 010808Z FEB 06
FM AMEMBASSY LILONGWE
TO RUEHC/SECSTATE WASHDC 2299
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEHFR/AMEMBASSY PARIS 0080
RUEHLO/AMEMBASSY LONDON 0188
RUEHJO/AMCONSUL JOHANNESBURG 0185
RUEAIIA/CIA WASHDC
RUEHLMC/MILLENNIUM CHALLENGE CORPORATION WASHDC

UNCLAS SECTION 01 OF 02 LILONGWE 000094

SIPDIS

SIPDIS
SENSITIVE

STATE FOR AF/S GABRIELLE MALLORY
STATE PLEASE PASS TO OPIC FOR JIM POLAN
JOHANNESBURG FOR FCS
PARIS FOR D'ELIA

E.O. 12958: N/A
TAGS: ELTN ECON EFIN MI
SUBJECT: MALAWI'S PASSENGER RAIL SERVICE TO RESTART

REF: 2005 LILONGWE 850

LILONGWE 00000094 001.2 OF 002

This message is sensitive but unclassified--not for Internet distribution.

SUMMARY

¶1. (SBU) The American operator of Malawi's railway agreed on terms to restart its passenger service, which had been closed for four months. The closure had brought sharp criticism from the GOM and possibly endangered the much larger cargo concession, a crucial link in the Nacala Corridor. While the agreement is a step forward, the concessionaire still has some way to go in building a good relationship with the government and its customers. End summary.

CLOSURE BROUGHT SHARP CRITICISM

¶2. (U) After a break in service from September 2005, Malawi's privatized railway will re-open its passenger service on February 1. With any luck, the resumption of service will end a crescendo of government-sponsored criticism in the press, faulting the railway for contributing to Malawi's economic woes and citing the railway as an example of the evils of privatization. As reported at the time of closure (reftel), the American-owned Central East African Railways (CEAR) had operated the service for nine months past the expiration of the previous agreement while negotiations with the GOM dragged on. The passenger service is a single, short line from south of Blantyre to Balaka, but it is a critically important service in the communities it serves.

¶3. (SBU) The two sides had been close on nearly all points of a proposed renewal, including a three-fold increase in the subsidy paid to the railway. What finally closed the deal was a decision by parent company Railroad Development Corporation to restructure CEAR's management, replacing the Pittsburgh-based CEO with management based in Mozambique. While the specifics of the new arrangement have yet to be communicated, this was enough to get Minister of Transport

Henry Mussa to agree to the deal.

¶4. (SBU) Given the unhappiness of the GOM toward the American concessionaires, it is unlikely that all will be sweetness and light from this day forward. The transport ministry has accused CEAR of not spending enough of its $30 million OPIC loan on the Malawian side of the Nacala Corridor and of expatriating Malawian assets to fix the line in Mozambique, to name only two of many sources of friction. (The loan, actually made to the larger consortium operating the entire line and the port in Mozambique, is for renovation of the line and the port.) But now CEAR seems focused on improving the patchy operation of the railway, and this may mark a turning point in a troubled relationship.

COAL IN THEM HILLS--AN ULTERIOR MOTIVE?

¶5. (SBU) Up until the end, Mussa had tried to broaden the negotiation to include the concession as a whole, as well as the proposal by a consortium of nominally Malawian businesses to buy a 16.7 percent equity stake in SDCN (the share was reserved for Malawian ownership at the time of SDCN's formation). Mussa's advocacy for the consortium probably extends to his criticism of CEAR within GOM circles, which is apparently meant to bolster the consortium's bid to participate in management decisions once it has an equity share. This share has suddenly become far more interesting with the expressed interest of Brazilian coal mining company CVRD in moving 10-14 million tons of coal per year from Moatize in northwestern Mozambique through Malawi to Nacala. With a ten-fold increase in traffic over the Nacala line, such a deal would make SDCN more valuable and probably offer any shareholders a chance to sell out in the near future.

COMMENT: INITIAL SUCCESS, BUT SOME WAYS TO GO

¶6. (SBU) COMMENT: Embassy has been active in getting the parties back to the negotiating table to work out their differences, on the theory that the larger relationship was in danger of a complete break, which in turn would imperil the Nacala Corridor. While this negotiation seems finally to have succeeded, there is a long way to go before CEAR and the Malawian government are happy with each other. Certainly CEAR is more likely to succeed with active management in the region. If the company can deliver cargo reliably, it may slowly rebuild its credibility with its customers and the government.
GILMOUR